

ANNUAL REPORT 2007

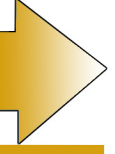


TABLE OF CONTENTS

Letter from the Director	1
Department Vision, Mission and Goals	2
Significant Achievements	3-6
Gross Tax Collections and Refunds	7
Revenue Sources	8-9
Gross Collections by Tax Type Annual Comparison	10-11
Property Taxes	12
Supplemental Reports	13-15
Learn More About Us	16

Individual Income Tax, Corporation Income Tax
Partnership Income Tax, Franchise Income Tax
Sales Tax, Retailer's Use Tax
Consumer's Use Tax, Local Option Taxes
Hotel / Motel Tax, Car Rental Tax
Withholding Tax, Motor Fuel Tax
Cigarette / Tobacco Tax, Inheritance Tax
Fiduciary Tax, Property Tax
Motor Vehicle Use Tax, Drug Stamp Tax
Real Estate Transfer Tax, Moneys & Credits Tax

FISCAL YEAR 2007

**Taxes
Established
by Iowa Code**

IOWA Department of REVENUE

Director: Mark R. Schuling, Hoover State Office Building, Des Moines, Iowa 50319, phone (515) 281-3204

December 1, 2007

The Honorable Chester J. Culver
Governor
State Capitol Building
Des Moines, Iowa 50319

The Honorable Members
Iowa General Assembly
Statehouse
Des Moines, Iowa 50319

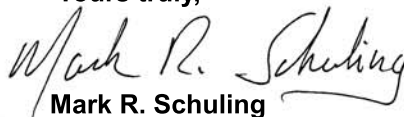
Dear Governor Culver
and Members of the Iowa General Assembly:

On behalf of the staff of the Iowa Department of Revenue, I am pleased to submit our Fiscal Year 2007 Annual Report. The mission of our Department is "To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more." This is accomplished by providing taxpayers with current and complete information, and up-to-date technology to support tax filings and payments. This report provides information about some of the ways in which that mission was accomplished during the past fiscal year.

We recognize our responsibilities to the taxpayers, and service is a priority. We are pleased to offer our professional services through the Internet and will continue to make progress and improve on those services.

Our actions will comply with the statutory provisions of the State of Iowa, and our duties under those statutes will be carried out in a fiscally responsible manner. Thank you for this opportunity to serve you and our State.

Yours truly,


Mark R. Schuling
Director

FISCAL YEAR 2007

1

IOWA DEPARTMENT OF REVENUE

To be recognized as a Department employing a well-trained work force that in a fair and respectful manner provides responsive and accurate services that enable all customers to comply with Iowa's tax law.

To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more.

- We will create an environment of collaboration and partnership in order to improve voluntary compliance with Iowa's tax system.
- We will safeguard our customers' confidential information.
- We will provide a consistent, fair and professional program of collection services.
- We will improve our methods of processing tax returns and payments and managing tax revenues so that these transactions will be timely, accurate and cost effective.
- We will support Department operations by responsibly managing our finances to provide an environment that nurtures our human resources, enhances technology platforms and continues a strong program of performance measurement and evaluation.
- We will provide education and supervision so that property assessment will be uniform, fair and equitable, and we will assist local governments by efficiently administering the local option tax programs.
- We will provide expert advice and support to policy-makers and to local and state government entities to promote economic growth in the state and accountability in administration of the state tax system.

Department Administration

Director Mark Schuling
Administrator, Compliance Division David Casey
Administrator, Internal Services Division Cynthia Morton
Administrator, Property Tax Division Dale Hyman
Administrator, Revenue Operations Division Stuart Vos
Administrator, Taxpayer Services & Policy Division David Casey
Administrator, Technology & Information
Management Division Richard Jacobs

Our Vision

Our Mission

Our Goals

SIGNIFICANT ACHIEVEMENTS

Electronic Filing of Business Taxes

Withholding: 99% of all returns were e-filed through eFile & Pay

Paper: 4,241

E-filed: 329,880

Sales/Use: 95% of all returns were e-filed through eFile & Pay

Paper: 20,525

E-filed: 383,466

LPG: 99% of all returns were e-filed through eFile & Pay

120 filers

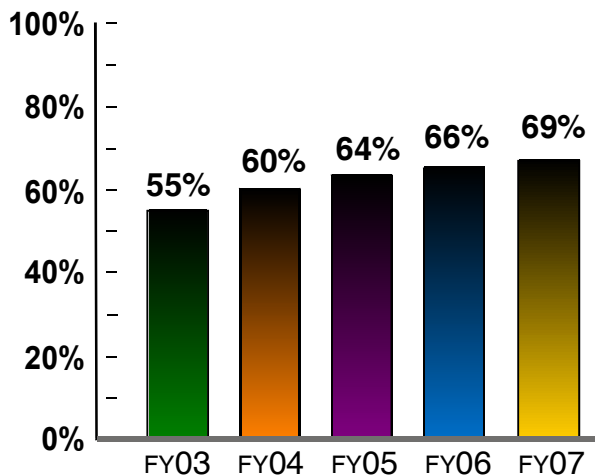
Motor Fuel: 99% of all returns were e-filed through eFile & Pay

270 filers

Electronic Filing of Individual Income Tax

For tax year 2006, 69 percent of individual income tax returns were filed electronically. More than 97 percent of e-filers had their refunds in 14 days.

***Iowans Choose to eFile
Individual Income Tax Returns***



FISCAL YEAR 2007

Nearly \$4 billion
(84%) of sales and
withholding dollars
were received
electronically.

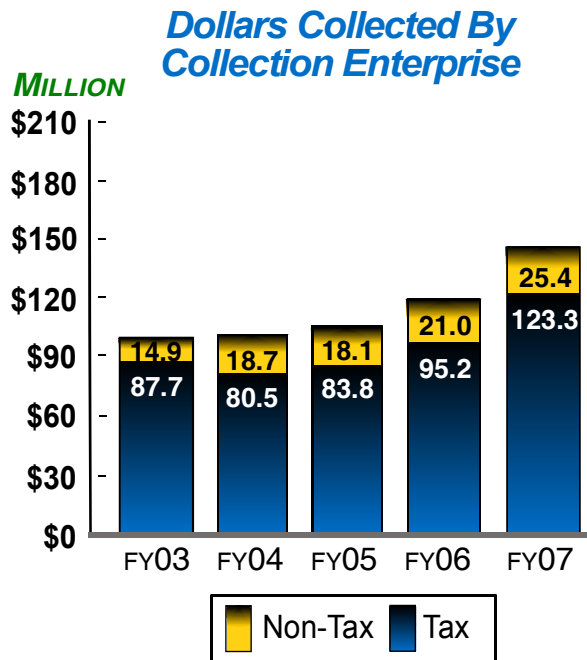
For tax year 2006,
Iowa led the nation
with 69% of returns
filed electronically.

The Department
processes more than
1.4 million individual
income tax returns.
Almost 63 percent are
refund returns.

SIGNIFICANT ACHIEVEMENTS

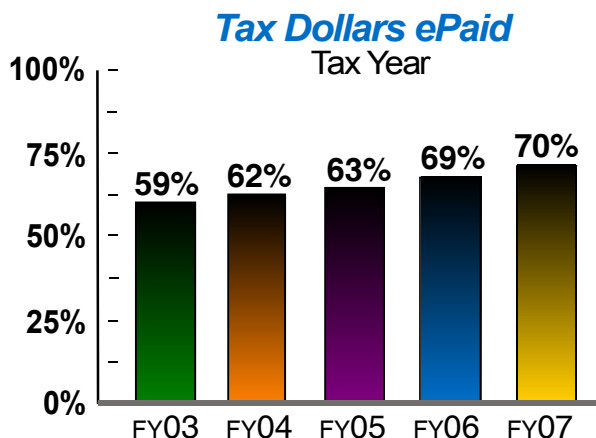
Collections

The Department significantly upgraded its collections software with the installation of “Strata,” which uses data-based modeling to stratify accounts. Collections increased from \$116 million in FY06 to \$148 million.



Electronic Payments

The Department received 70 percent of all deposits electronically.



FISCAL YEAR 2007

In addition to taxes, the Department also collects:

- child support
- college loan
- court debt
- Department of Natural Resources debt

Electronic payment options include:

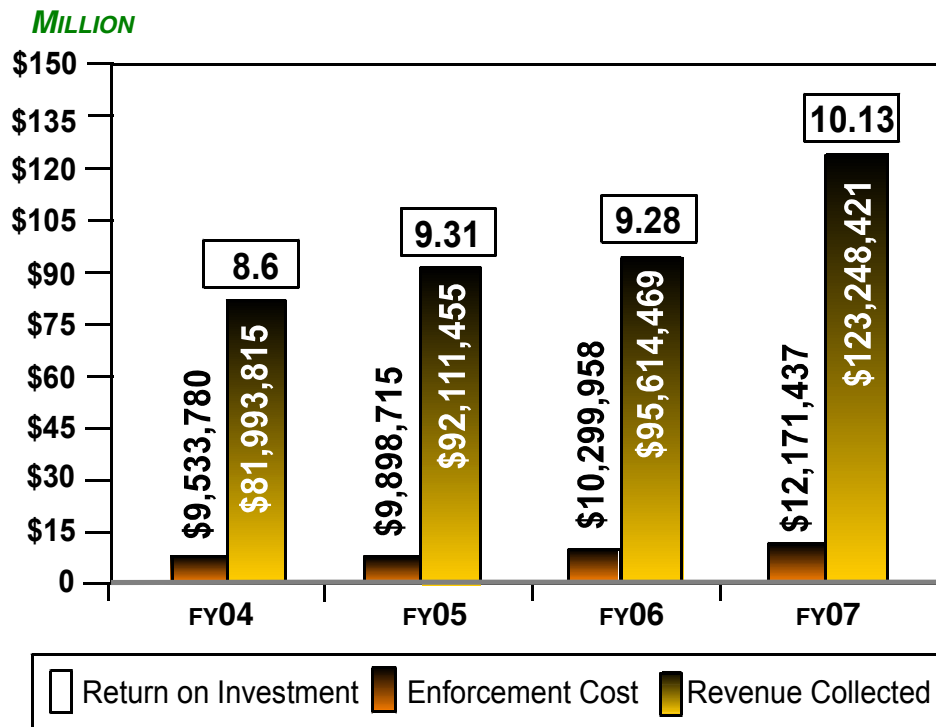
- direct debit (ePay through eFile & Pay)
- electronic funds transfer, and
- credit card.

SIGNIFICANT ACHIEVEMENTS

Return on Investment

Every \$1 invested in audit activities generated more than \$10 in taxes collected. An investment of \$12.2 million in audit activities produced more than \$123 million for the General Fund to finance services to Iowans.

Return on Investment Dollars Spent on Enforcement Versus Dollars Collected



FISCAL YEAR 2007

The vast majority of taxpayers file their returns and pay their taxes on time. In fairness to them, the Department collects unpaid taxes.

5

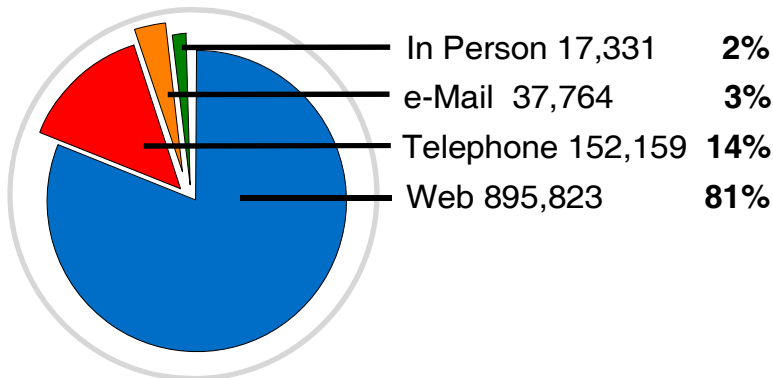
SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2007

Taxpayer Contacts

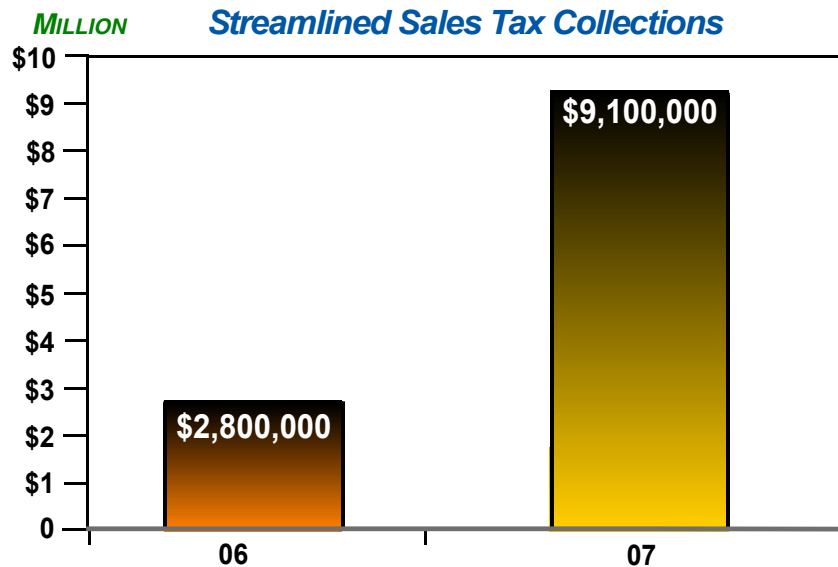
Iowa taxpayers seek out the Department for answers to their questions and information about taxes. Tax specialists are available by telephone and e-mail; in addition, they teach classes statewide for businesses and tax practitioners. Electronic services are available 24/7.

Taxpayer Contacts 1,103,077



Streamlined Sales Tax

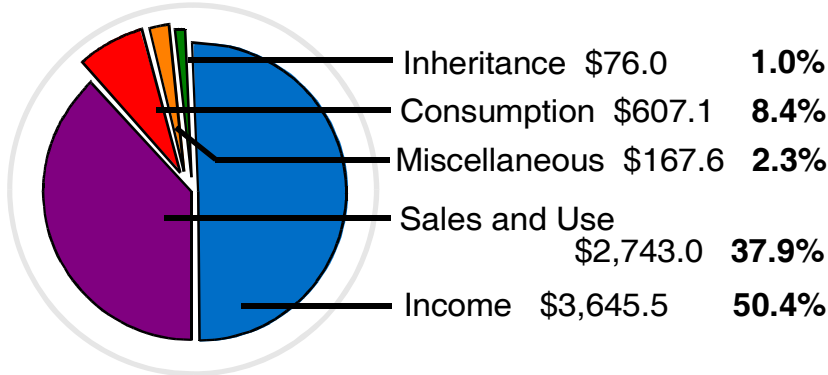
Iowa received approximately \$9.1 million from Streamlined Sales Tax Project returns. Total collections since 2005 are more than \$15 million.



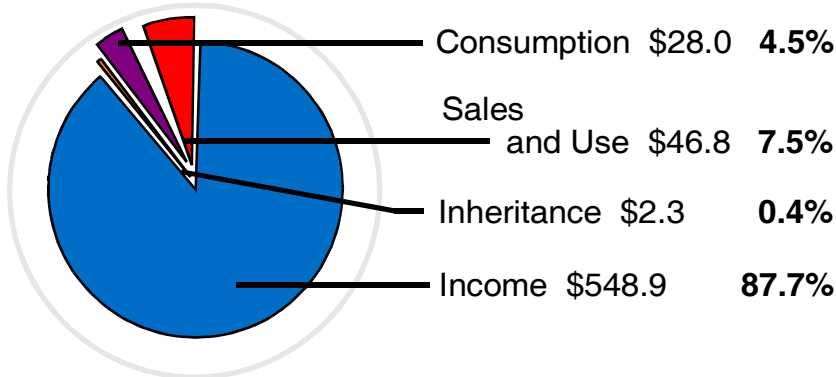
More than 1,000
retailers nationwide
have voluntarily
registered to collect
sales tax.

GROSS TAX COLLECTIONS AND REFUNDS

Gross Tax Collections - \$7,239.2 MILLION



Tax Refunds - \$625.9 MILLION



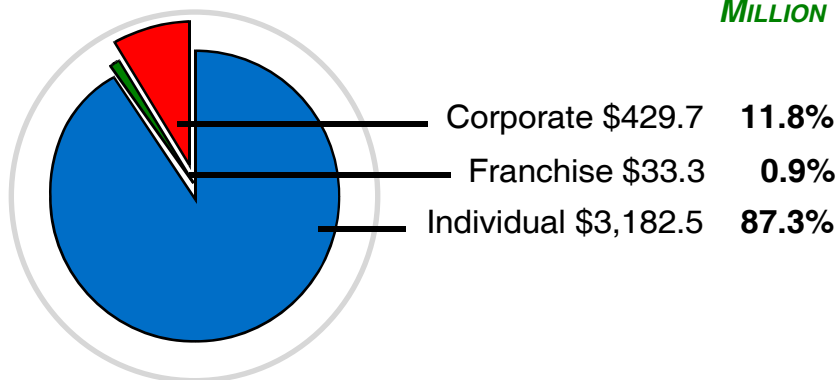
FISCAL YEAR 2007

Last year's gross collections were \$6,773.9 million.

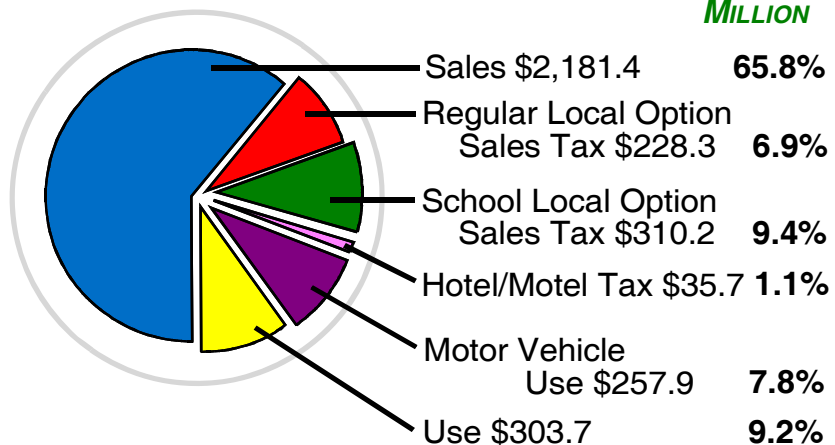
Individuals and businesses may obtain refunds of tax they paid in error. The statute of limitations for refunds is three years.

REVENUE SOURCES

Income Taxes - \$3,645.5 *MILLION*



Sales/Use Taxes - \$2,743.0 *Total Including Local Option Taxes - \$3,317.2* *MILLION*



FISCAL YEAR 2007

Number of returns:

- Corporate: 37,756
- Franchise: 545
- Individual: 1,491,484

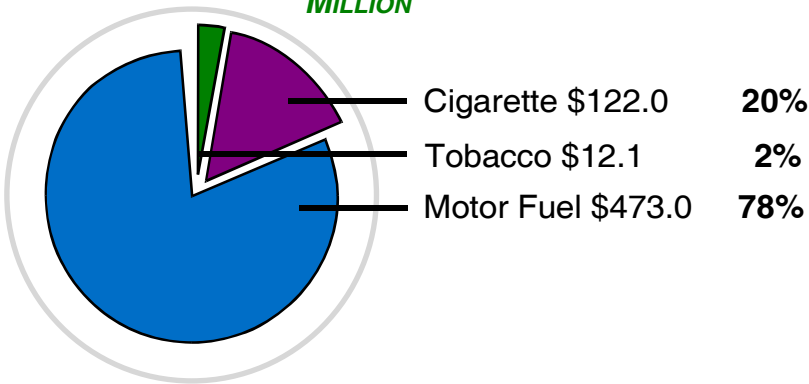
Sixty-one of Iowa's 99 counties had a sales tax rate of 7%. Ten counties were at 6%; 27 had varying rates, and one was at 5%.

Use tax includes:

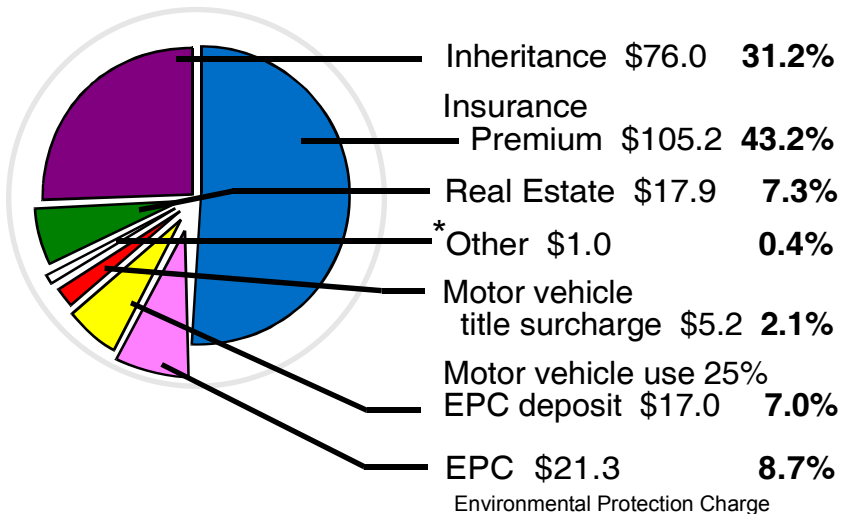
- consumer's use
- retailer's use

REVENUE SOURCES

Consumption - \$607.1 MILLION



Other - \$243.6 MILLION



* Hazardous materials permit fee, Reimbursements, Miscellaneous

FISCAL YEAR 2007

9

The cigarette tax increased from 36¢ to \$1.36 on March 16, 2007.

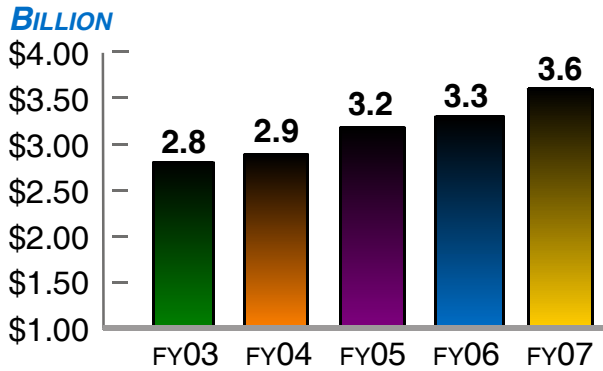
Motor fuel tax rates per gallon:

- Gasoline: 21¢
- Ethanol: 19¢
- E85: 17¢
- Diesel: 22.5¢

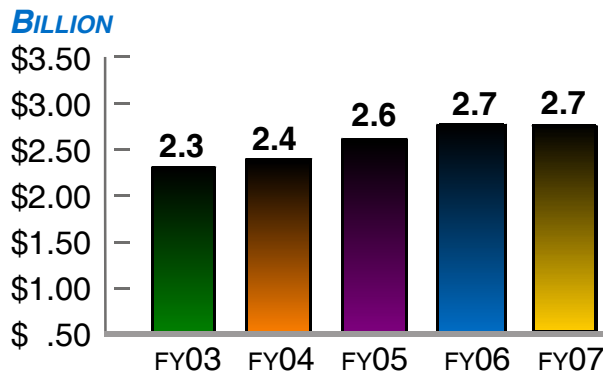
The real estate transfer tax is imposed on the amount paid for the property. The first \$500 of the amount paid for the property is exempt. The remainder is taxed at \$1.60 per thousand dollars.

GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

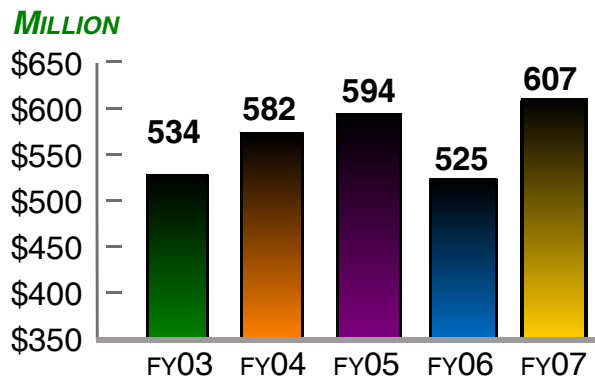
Income



State Sales/Use



Consumption



FISCAL YEAR 2007

Income taxes include individual, corporation and franchise.

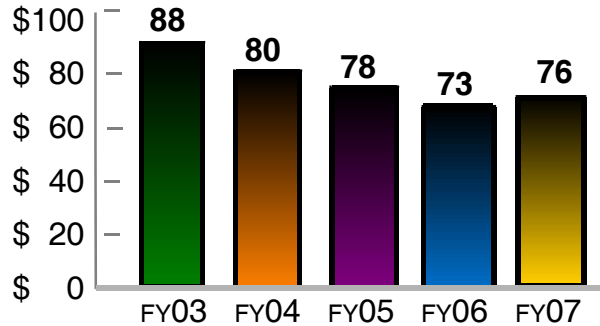
Sales, use and motor vehicle use taxes are represented. The state rate for each of these is 5 percent.

“Consumption” taxes are cigarette, tobacco, and motor fuel taxes.

GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

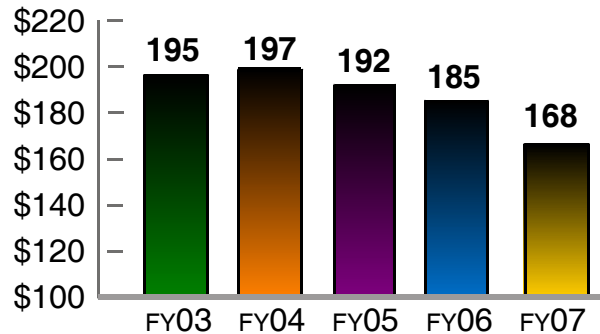
Inheritance

MILLION



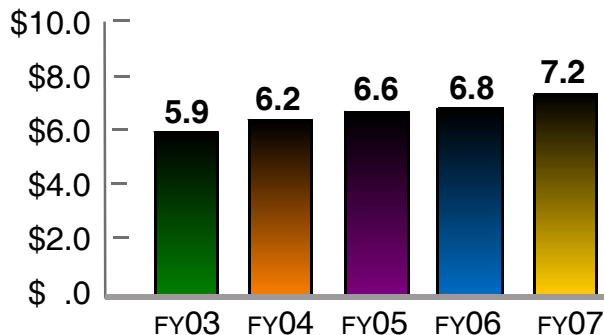
Miscellaneous

MILLION



All Tax Types

BILLION



FISCAL YEAR 2007

Lineal ascendants and descendants, including step-children, are exempt from paying Iowa inheritance tax. Iowa estate tax was eliminated in 2005.

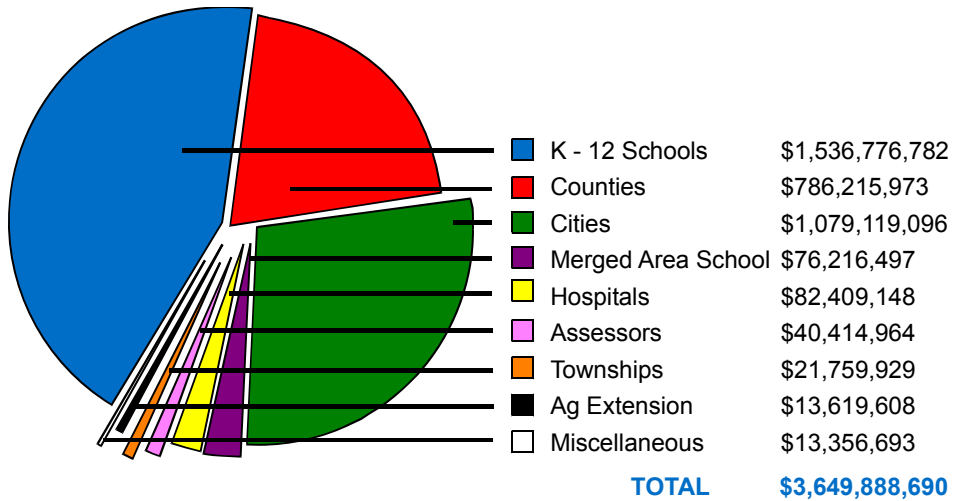
Miscellaneous Taxes include:

- Environmental Protection Charge
- Motor Vehicle Use 25% EPC Deposit
- Real Estate Transfer Tax
- Hazardous Materials Permit Fees
- Insurance Premium Tax
- Reimbursements
- Motor Vehicle Title Surcharge
- Other

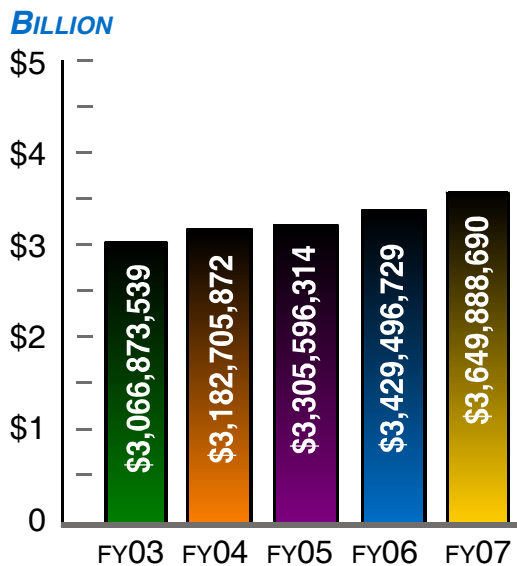
PROPERTY TAX

Property Tax Levied By Type of Taxing Authority

TOTAL \$3,649,888,690



Annual Comparison



FISCAL YEAR 2007

The Department:

- administers credits and exemptions to property owners
- educates, certifies and assists assessors and boards of review
- issues equalization orders every two years
- assesses utility and railroad properties
- generally supervises assessor offices and boards of review

SUPPLEMENTAL REPORTS

FISCAL YEAR 2007

13

Tax Gap Program

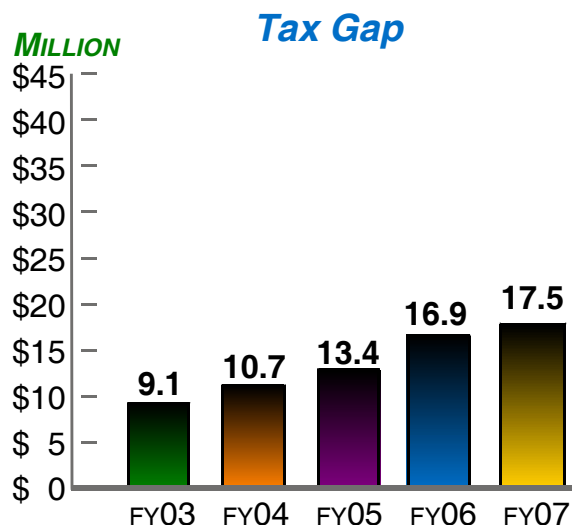
The Tax Gap Program is a Department initiative to improve tax compliance through advanced utilization of technology. Tax Gap consists of four major components: Enterprise Data Warehouse (EDW), Business Intelligence, Web-based Audit Component application, and a number of automated interface programs.

During FY07, additional information was added from the processing system for the various tax types. Information in the Data Warehouse was used to help in the development of the Collections Strata Project.

The Business Object Program was upgraded and reports were created for use by various divisions of the Department. More than 200 Department employees are now utilizing 185 available reports.

In FY07 enhancements of the Audit Component Program were completed in order to improve correspondence generation, security, and overall functionality. Audit programs were enhanced to reduce the time needed to investigate audit leads and to increase the return on investment.

The Tax Gap Program collected \$17.5 million during FY07.



**Total Tax Gap
program revenues
since its initiation in
2000 are \$86.4
million.**

SUPPLEMENTAL REPORTS

Compliance Report

Fiscal Year 2007 was a successful year in that most of the goals established for the year were met. While compliance is not always measured in terms of dollars collected, collections for FY07 exceeded \$123.2 million for revenue collections and refund reductions made through audits of selected refund claims. The break down is as follows:

- \$58.3 million from office exams
- \$6.5 million from in-state field audit
- \$8.0 million from out-of-state field audit
- \$19.3 million from Tax Gap
- \$31.1 million from refund claim reductions

As a Charter Agency, the Department produced more than \$8.1 million in revenue collected or reduced interest paid out through expediting refunds.

While much emphasis is given to enforcement collections, the Department's primary focus and best way to secure compliance is through taxpayer service and education programs. The Department continues to provide more electronic filing options for Iowa taxpayers and more self-help and 24/7 service to the general public.

Individual Income Tax Abatements Calendar 2006

The director of the Department of Revenue is provided with the statutory authority "to abate any portion of tax, interest or penalties which he determines are excessive in amount, or erroneously or illegally assessed." Abatements apply to those cases in which the initial protest occurs after the 60-day appeal period has expired and in which the taxpayer produces records substantiating the claim to reduced tax liability. The table below summarizes the individual income tax abatements allowed in calendar 2006:

Number of Returns	Tax	Penalty (includes fees)	Interest	Total Amounts
1,631	\$6,557,131	\$620,404	\$1,954,854	\$9,132,389

FISCAL YEAR 2007

Most taxpayers file and pay their taxes voluntarily. Non-compliant taxpayers are pursued through a variety of audit programs.

Auditors are located in Iowa, Illinois, Washington State, Kansas and Pennsylvania.

14

SUPPLEMENTAL REPORTS

Report on Information System Activity

Integrated Revenue Information System (IRIS)

Business operations

The IRIS application was enhanced at the request of various units to provide additional functionality and opportunities for increased efficiency in business operations. Among the more significant improvements are:

- a process that allows electronic transfer of payment data from the IRIS to the Accounts Receivable system; previously, payments posted to IRIS required several manual processes.
- the ability to record staff notes and comments on transaction records
- improvements in the processes used to distribute local option taxes

Security enhancements

In addition, IRIS development focused on enhancing the security of data. Primary among the improvements were:

- an inventory of all data extracted for use in other Department information systems and
- the elimination of unnecessary historical data sets in accordance with newly-developed data retention policies.

eServices

The Department continued to improve the services and marketing of its various electronic filing initiatives.

Individual Income Tax Returns

Nearly 977,000 individual income tax returns were electronically filed. Due to increased accuracy of these returns, refunds were often issued in only a few days.

Business Tax eFile & Pay

Businesses filed 97 percent of all sales and withholding quarterly tax returns through the eFile & Pay program.

Electronic filing of detailed transaction reports from the motor fuel industry was implemented. This allows the Department to electronically receive over 250,000 records of sales of fuel on a monthly basis, which ensures compliance with reporting requirements.

FISCAL YEAR 2007

15

Once again, Iowa taxpayers took advantage of the ease and accuracy of electronic filing in record numbers by submitting over 2 million electronic transactions.

LEARN MORE ABOUT US

FISCAL YEAR 2007

Results Iowa

To learn about the Department's goals, strategic and performance plans, and the strategies we use to achieve results, please see our page on the Results Iowa Web site at www.resultsiowa.org/revenue.html

Online Services, Tax Forms and Publications

www.state.ia.us/tax

Additional statistics are online in Publications > Statistical Reports.

- Sales and use quarterly and annual reports
- Local option tax distributions
- Motor fuel monthly reports
- Individual income tax reports

Information about taxes are online in Research.

- Descriptions and rates
- History of tax rates
- Legislative summaries
- Tax credits
- Declaratory orders

Assistance from a tax specialist:

E-mail: idr@iowa.gov

Telephone: 515/281-3114 or 1-800-367-3388

TDD for hearing impaired: 515/242-5942

Mail: **Taxpayer Services**

Iowa Department of Revenue

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